

# Direct Tax Course

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# Slab Rates , Surcharge and Marginal Relief

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## OLD Regime

Income slab	Upto 60 Years of Age	Senior Citizen(60 -80 years)	Super Senior Citizen(More than 80 years)
Up to Rs.2.5 lakh	Nil	Nil	Nil
Above Rs.2.50 lakh - Rs.3.00 lakh	5%	Nil	Nil
Above Rs3 lakh - Rs.5.00 lakh	5%	5%	Nil
Above Rs.5 lakh - Rs.10 lakh	20%	20%	20%
Above Rs.10 lakh	30%	30%	30%

# Slab Rates , Surcharge and Marginal Relief

## Surcharge

Income slab	Upto 60 Years of Age
Rs.50 lakhs to Rs.1 crore	10%
Rs.1 crore to Rs.2 crore	15%
Rs.2 crore to Rs.5 crore	25%
Rs.5 crore to Rs.10 crore	37%

# Slab Rates , Surcharge and Marginal Relief

## Marginal Relief

- ▶ The concept of marginal relief is designed to provide relaxation from levy of surcharge to a taxpayer where the total income exceeds marginally above Rs. 50 lakh, Rs. 1 crore, Rs. 2 crore, Rs. 5 crore or Rs. 10 crore, as the case may be.
- ▶ Thus, while computing surcharge, in case of taxpayers having total income of more than Rs. 50 lakh marginal relief shall be available in such a manner that the net amount payable as income-tax and surcharge shall not exceed the total amount payable as income-tax on total income of Rs. 50 lakh by more than the amount of income that exceeds Rs. 50 lakh.

# Slab Rates , Surcharge and Marginal Relief

## Example

- ▶ Mr.A is salaried employee (age 40 years). His total income from salary for the year 2021-22 amount to Rs. 51,00,000. Will he liable to pay surcharge, if yes, then how much and will he get the benefit of margin relief?
- ▶ (1) Normal tax liability (i.e. without marginal relief)

Tax on Rs. 51 lakh (at the above discussed rates)	13,42,500
Add: Surcharge (@10% on the amount of income-tax of Rs. 13,42,500)	1,34,250
Tax liability after surcharge (i.e., normal tax liability)	14,76,750
<p>The normal tax rates for the financial year 2021-22 applicable to an individual below the age of 60 years are as follows:</p> <p>Nil upto income of Rs. 2,50,000</p> <p>5% for income above Rs. 2,50,000 but upto Rs. 5,00,000</p> <p>20% for income above Rs. 5,00,000 but upto Rs. 10,00,000</p> <p>30% for income above Rs. 10,00,000.</p>	

# Slab Rates , Surcharge and Marginal Relief

## Example

- (2) Tax liability under marginal relief (i.e. after marginal relief)

Tax on 50 L	13,12,500
Add: Income above Rs. 50 lakh	1,00,000
Tax Liability under Marginal Relief	14,12,500
Lower of both is tax liability , add Cess @4%	
Tax liability after marginal relief	14,12,500
Add Cess@4%	56,500
Tax liability	14,69,000

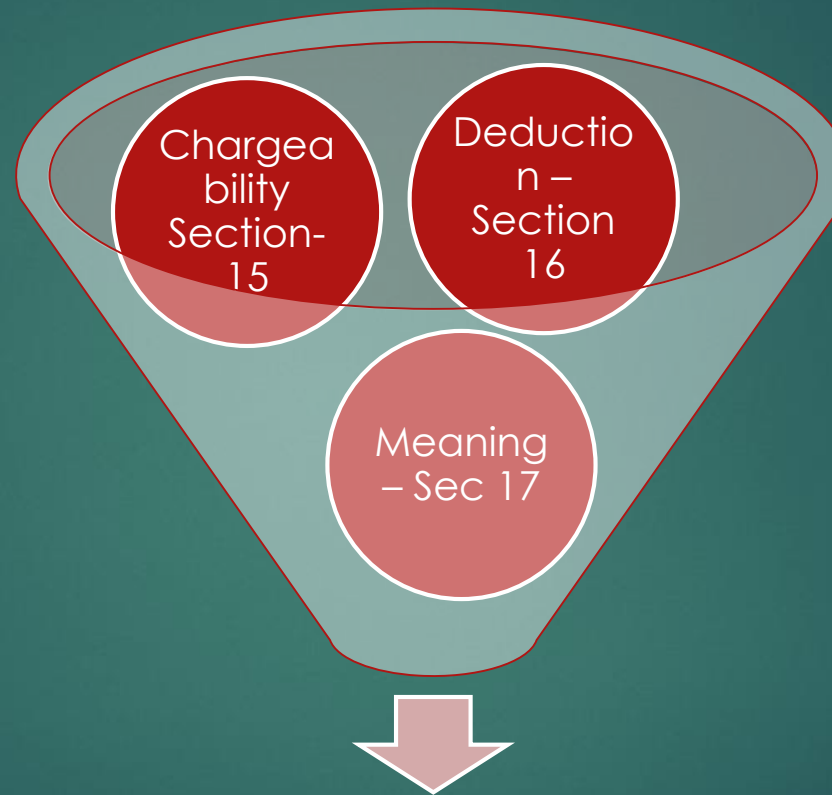
# Slab Rates , Surcharge and Marginal Relief

## **Rebate u/s 87A**

- ▶ An individual
- ▶ resident in India and
- ▶ whose total income does not exceed Rs. 5,00,000 is entitled to claim rebate under section 87A.
- ▶ Rebate is available in the form of deduction from the tax liability.
- ▶ Rebate will be lower of 100% of income-tax liability or Rs. 12,500.

# Income from Salary

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Income From Salary



# Income from Salary

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## BASIS OF CHARGE (SECTION 15)

- ▶ Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
- ▶ where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
- ▶ If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid
- ▶ **Example :** *If A draws his salary in advance for the month of April 2021 in the month of March 2021 itself, the same becomes chargeable on **receipt basis** and is to be assessed as income of the P.Y.2020-21 i.e., A.Y. 2021-22. However, the salary for the A.Y. 2022-23 will not include that of April 2021.*
- ▶ **Example :** *If the salary due for March 2021 is received by A later in the month of April 2021, it is still chargeable as income of the P.Y. 2020-21 i.e., A.Y. 2021-22 on **due basis***

# Income from Salary

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## BASIS OF CHARGE (SECTION 15)

- ▶ **Advance Salary/ Advance against Salary**
- ▶ taxable when it is received by the employee irrespective of the fact whether it is due or not.
- ▶ If the tax rate in the year of receipt of salary is higher than the normal rate of tax to which he would have been assessed in the year in which it was due Section 89(1) provides for relief in these types of cases.
- ▶ **Arrears of salary**
- ▶ salary arrears must be charged on due basis. However, there are circumstances when it may not be possible to bring the same to charge on due basis. (Eg: Retrospective Increase in salary)

# Income from Salary

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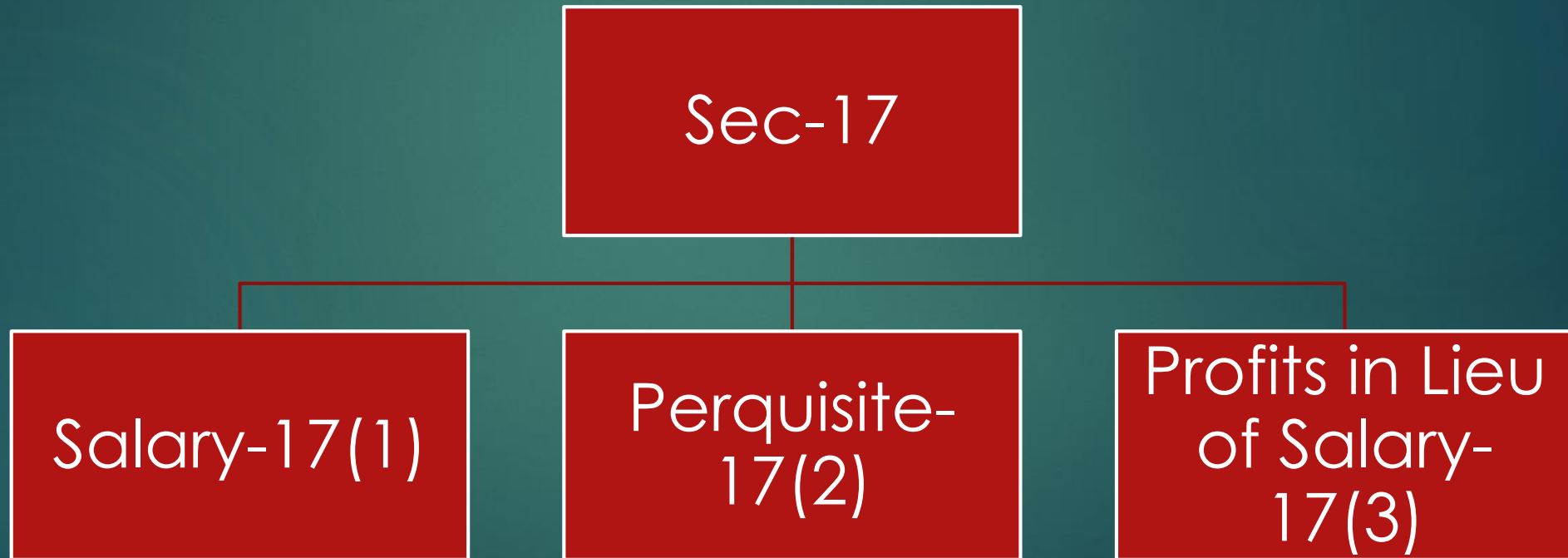
## BASIS OF CHARGE (SECTION 15)

- ▶ **Place of accrual of salary:**
- ▶ a) Salary accrues where the services are rendered even if it is paid outside India;
- ▶ b) Salary paid by the Foreign Government to his employee serving in India is taxable under the head Salaries;
- ▶ c) Leave salary paid abroad in respect of leave earned in India shall be deemed to accrue or arise in India.
- ▶ *Exceptions* – If a Citizen of India render services outside India, and receives salary from Government of India, it would be taxable as salary deemed to have accrued in India.

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)



# Income from Salary

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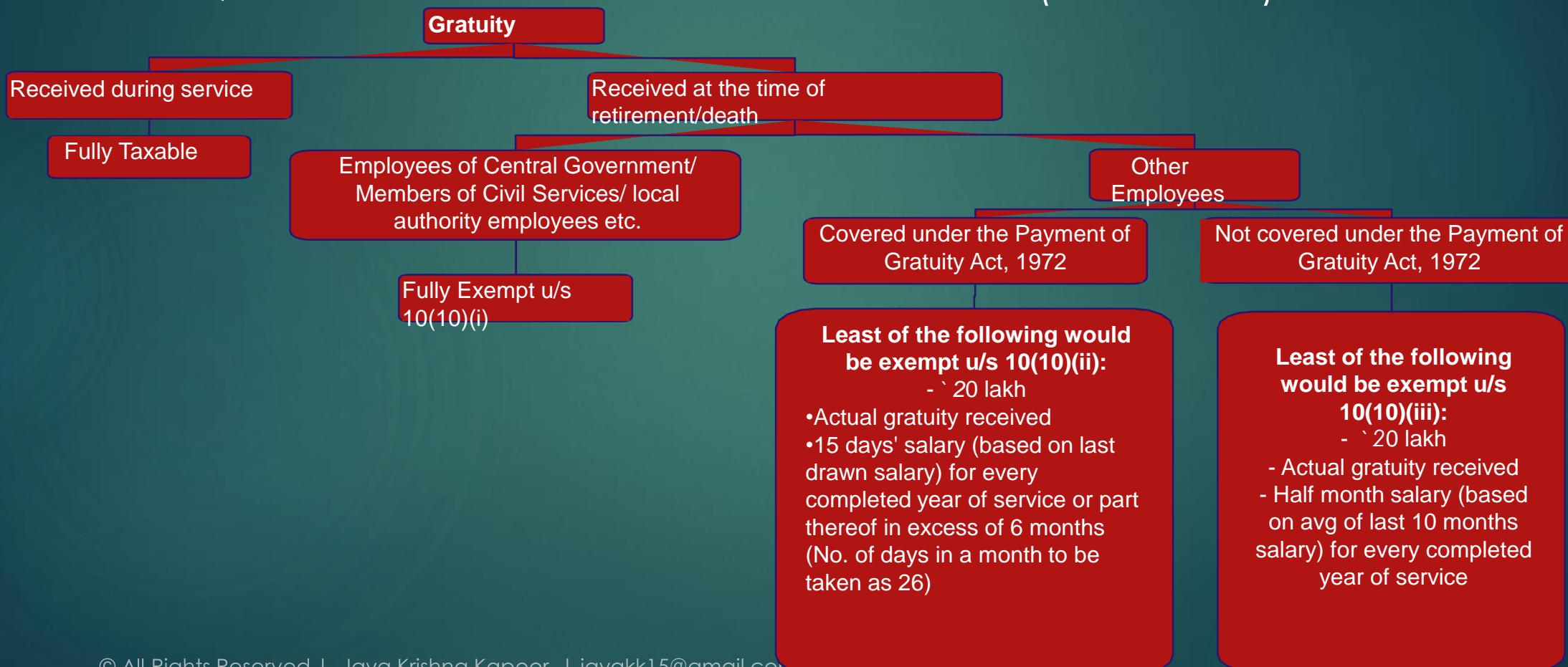
## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

<b>'Salary' under section 17(1), includes the following:</b>	
(i)	Wages/ Salary/ Basic Salary including Allowances
(ii)	any annuity or pension,
(iii)	any gratuity, (20L or Actual or 15 days salary based on last drawn for each completed year or part > 6m)
(iv)	any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages,
(v)	any advance of salary,
(vi)	any payment received in respect of any period of leave not availed by him i.e. leave salary or leave encashment, (3L, actual, 10 m salr, Cas Eq of EL on basis of Av 10 m sal)
(vii)	Provident Fund:
(viii)	the contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD.

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)



# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

During Job				On Retirement
Type of PF	Employee's	Employer's	Interest	Payments from Fund
Statutory	Taxable- 80C	Not Taxable	Not Taxable	Not Taxable
Unrecognized	Taxable	Not Taxable	Not Taxable	Employer-Taxable Interest on both employee's/ employer's contr-Taxable
Recognized	Taxable-80C	Taxable, if >12% of Sal upto 7.5 L	Taxable, if >9.5% p.a. interest	Not Taxable, but left the job before 5 years- taxable, but t/f to new employer-not taxable- *only that portion taxable which was not earlier taxed



# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ Allowances
- ▶ Allowances are given to employees to meet some particular requirements like house rent, expenses on uniform, conveyance etc. Under the Income-tax Act, 1961, allowance is taxable on due or receipt basis, whichever is earlier.

Allowances		
Fully Taxable	Partly Taxable	Fully Exempt
(i) Entertainment Allowance	(i) House Rent Allowance [u/s 10(13A)]	(i) Allowances to High Court Judges
(ii) Dearness Allowance	(ii) Special Allowances [u/s 10(14)]	(ii) Allowance paid by the UN Organization
(iii) City Compensatory Allowance		(iii) Allowance to Govt Empl o/s India
(iv) Transport Allowance		(iv) Sumptuary Allowance to H.c.Judges



# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

### ► (A) Allowances- Fully Taxable

Allowance	Remarks
City compensatory allowance	For high cost of living in city , fully taxable
Tiffin/Lunch/Dinner Allowance	Fully Taxable
Entertainment allowance	<ul style="list-style-type: none"><li>Fully Taxable , except in Government Employees (allowed as ded)</li></ul> Lowest of <ul style="list-style-type: none"><li>Actual Allowance or</li><li>1/5<sup>th</sup> of the Basic Salary or</li><li>5000 p.a.</li></ul>
Other Cash Allowance	Taxable

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ (B) Allowances- Partially Taxable
- ▶ House Rent Allowance- 10(13A)

<b>Metro Cities (i.e. Delhi, Kolkata, Mumbai, Chennai)</b>	<b>Other Cities</b>
1) HRA actually received for the relevant period	1) HRA actually received for the relevant period
2) Rent paid (-) 10% of salary for the relevant period	2) Rent paid (-) 10% of salary for the relevant period
3) 50% of salary for the relevant period	3) 40% of salary for the relevant period

1. Exemption is not available to an assessee who lives in his own house, or in a house for which he has not incurred the expenditure of rent.
2. “Relevant period” means the period during which the said accommodation was occupied by the assessee during the previous year

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ (B) Allowances- Partially Taxable
- ▶ House Rent Allowance
- ▶ *Example : Basic pay ₹ 30,000 p.m.*
  - ▶ *Dearness allowance (D.A.) ₹ 3,000 p.m.*
  - ▶ *Commission ₹ 25,000 p.a.*
- ▶ *House rent allowance ₹ 12,000 p.m.*
- ▶ *Find out the amount of HRA eligible for exemption assuming that rent paid of ₹ 10,000 p.m. for accommodation at Jaipur. DA forms part of salary for retirement benefits.*

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ Answer : HRA received      ₹ 1,44,000
- ▶ Less: Exempt under section 10(13A) read with rule 2A [Working Note]      ₹ 80,400
- ▶ **Taxable HRA**      ₹ 63,600
- ▶ **Note:** Exemption shall be least of the following three limits:
  - ▶ the actual amount received ( $₹ 12,000 \times 12$ ) = ₹ 1,44,000
  - ▶ excess of the actual rent paid by the assessee over 10% of his salary
- ▶ = Rent Paid - 10% of salary for the relevant period
- ▶ = ( $₹ 10,000 \times 12$ ) - 10% of [ $(₹ 30,000 + ₹ 3,000) \times 12$ ]
- ▶ = ₹ 1,20,000 - ₹ 39,600 = ₹ 80,400
  - ▶ 40% salary as his accommodation is situated at Jaipur
- ▶ = 40% of [ $(₹ 30,000 + ₹ 3,000) \times 12$ ] = ₹ 1,58,400
- ▶ For the purpose of section 10(13A), salary includes basic salary, dearness allowance, if provided in terms of employment, and commission as a fixed percentage of turnover, but excludes all other allowances and perquisites.

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ (B) Allowances- Partially Taxable
- ▶ Special Allowance **to meet expenses relating to duties or personal expenses Sec 10(14) read with Rule 2BB-**
- ▶ 10(14(i)-No Limit on expense to be incurred
- ▶ Expense should be claimed on actual basis (CUT HDR)

Travelling  
Allowance

Conveyance  
Allowance

Daily  
allowance/Per-  
diem  
allowance

Helper  
Allowance

Uniform  
Allowance

Research  
Allowance

**Note - An employee, being an assessee, who opts for the provisions of section 115BAC would be entitled for exemption only in respect of travelling allowance, daily allowance and conveyance allowance.**

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ (B) Allowances- Partially Taxable
- ▶ Special Allowance **to meet expenses relating to duties or personal expenses – Sec10(14) Read with Rule 2BB**
- ▶ 10(14)(ii)-to meet personal expenses of employees
- ▶ Exemption is allowed only upto a certain limit

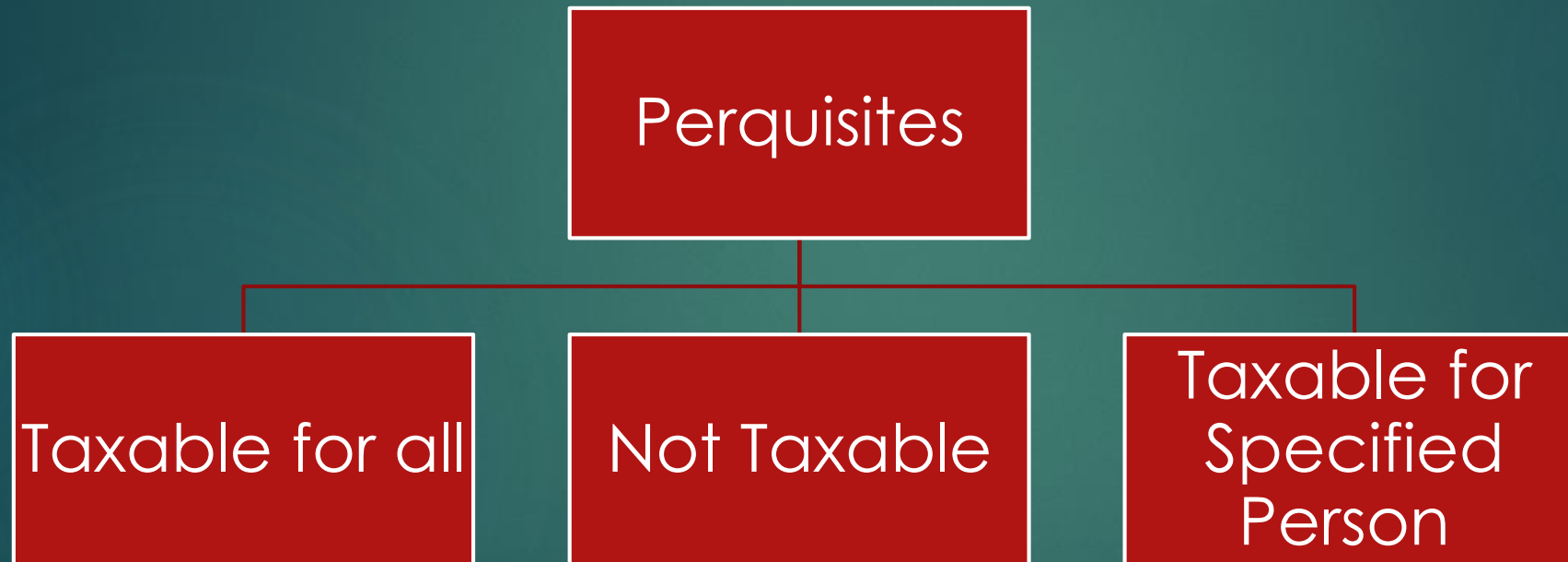
Allowance	Maximum Exemption	Conditions
Children Education Allowance	Rs.100 p.m. per child	Max. 2 children
Hostel Expenditure Allowance	Rs. 300 p.m. per child	Max. 2 children
Transport Allowance	Fully Taxable except in case of blind / deaf and dumb/ orthopedically handicapped employees, exemption upto ` 3,200 p.m. is provided	employee in any transport system provided that such employee is not in receipt of daily allowance- lower of 70% of allowance or 10000p.m.

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

► Perquisites





# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ Perquisites
- ▶ Taxable for All

Rent Free Accommodation	Gift, voucher or token in lieu of such gift- Exceeding INR 5000
Interest free or concessional loan	Transfer of <b>movable assets</b>
Amount contributed to NPS/ PF/ Superannuation Fund, if exceeds 7.5 Lacs	Use of <b>movable assets</b>
Credit card expense- Annual/ Membership Fees , in case it is not for official purpose	Free or concessional food and non- alcoholic beverages except in case provided during working hours or through paid vouchers not exceeding 50 per meal
Servant Allowance- Reimbursement	Travelling , touring and accomodation



# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ Perquisites
- ▶ Rent Free Accommodation
- ▶ **Valuation of residential accommodation [Sub-rule (1) of Rule 3]**

Particulars	Value of Perquisite		
	City having population as per 2001 Census		
Accommodation Owned by Employer	≤ 10 Lakhs	10 L < Pop ≤ 25 L	> 25 Lakhs
	7.5%	10%	15%
Accommodation Taken on Rent by Employer	Lower of	<ul style="list-style-type: none"><li>• Actual Amount Paid</li><li>• 15% of Salary</li></ul>	
Accommodation provided in Hotel upto 15 years – not taxable	Lower of	<ul style="list-style-type: none"><li>• Actual Charges Paid for Hotel</li><li>• 24% of Salary</li></ul>	
Furniture	Owned By employer	10% p.a. of cost	
	Hired by Employer	Actual Charges paid by employer	

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

► Perquisites

► **Use of moveable assets [Sub-rule 7(vii) of Rule 3](Laptops/Chairs)**

Asset given	Value of benefit
(a) Use of laptops and computers	Nil
(b) Movable assets, other than - (i) laptops and computers; and (ii) Car	10% p.a. (only for period) of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be

► **Transfer of moveable assets [Sub-rule 7(viii) of Rule 3]**

Assets transferred	Dep uptill Sale for each competed year	Value of perquisite
Computers and electronic items	50% (WDV)	Cost- Dep till date of Sale- Sale Price if paid any= Value of Asset
Motor cars	20% (WDV)	
Any other asset	10% (SLM)	

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

### ► Example

	Car	Laptop	Furniture
Cost of Purchase (May 2018) (₹)	8,72,000	1,22,500	35,000
Sale Price (₹)	5,15,000	25,000	10,000

*The assets were put to use by the company from the day these were purchased*

	Car	Laptop	Furniture
Rate of Depreciation	20%	50%	10%
Basis of Depreciation	WDV	WDV	SLM
Cost of asset to company – May 2018	8,72,000	1,22,500	35,000
Less: Normal wear & tear upto May, 2019	1,74,400	61,250	3,500
	6,97,600	61,250	31,500
Less: Normal wear and tear upto May, 2020	1,39,520	30,625	3,500
Balance, in May, 2020	5,58,080	30,625	28,000
Less: Sale value on 13.06.2020	5,15,000	25,000	10,000
Value of Perquisite	43,080	5,625	18,000

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## ► **Motor Car or Conveyance Facility**

Used for	Taxable Value			
Exclusively Business Purpose	Nil			
Exclusively Personal purpose	Expenses of Maintenance & Driver and 10% of Actual Cost of Car			
partly for performance of duties and partly for private or personal purpose- Taxable Value	Car owned/hired by employer and exp met or reimbursed by	Less than or Eq to 1.6 L Engine Cap	> 1.6L Engine Cap	Driver provided to run car , additional amount
	Employer	1800 p.m.	2400 p.m	900 pm
	Employee	600 pm	900 pm	900 pm

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Leave Travel Concession- 10(5)

- ▶ **The benefit is available to individuals** - citizens as well as non-citizens - for himself or herself and for his/her family- *i.e.*, spouse and children of the individual and parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.
- ▶ Exemption will be available in respect of 2 journeys performed in a block of 4 calendar years .
- ▶ If not availed during any block of 4 calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption.

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Leave Travel Concession- 10(5)

Journey performed by	Limit
Air	Economy Class for the Shortest Route
<b>Other Mode</b>	
Where Rail service is available	Fare for Air- conditioned first class for shortest Route
Where Rail Service is not Available	
1. a recognised public transport system exists	Deluxe Class or First Class
2. No recognized Public transport exist	Equivalent to Air Conditioned First Class Railway

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## **Leave Cash Allowance- 10(5)**

For the Financial year 2020-2021 (also available to Private Sector Employees)

- ▶ Amount of Exemption:  $\frac{1}{3}$ <sup>rd</sup> of amount spent on purchase of goods or services from GST Registered vendors / service providers on which GST Rate is 12% or more (i.e. 12% or 18% or 28%). Maximum amount of exemption: 36,000 per family member. (Eg. If 3 members in family – then Exemption of Rs. 1,08,000)
- ▶ Expense / Purchase should have been made between 12<sup>th</sup> October, 2020 to 31<sup>st</sup> March, 2021.
- ▶ Payment should be made through digital mode. (i.e. it should not be in cash). The employee exercises an option for the deemed LTC fare in lieu of the applicable LTC in the Block year 2018-21.
- ▶ Employee should obtain GST Invoice from the vendor / service provider.
- ▶ Family Member means spouse and children of the individual. Family also includes parents / brother / sister dependent on the individual.
- ▶ Block period for which available 2018-19 to 2021-22



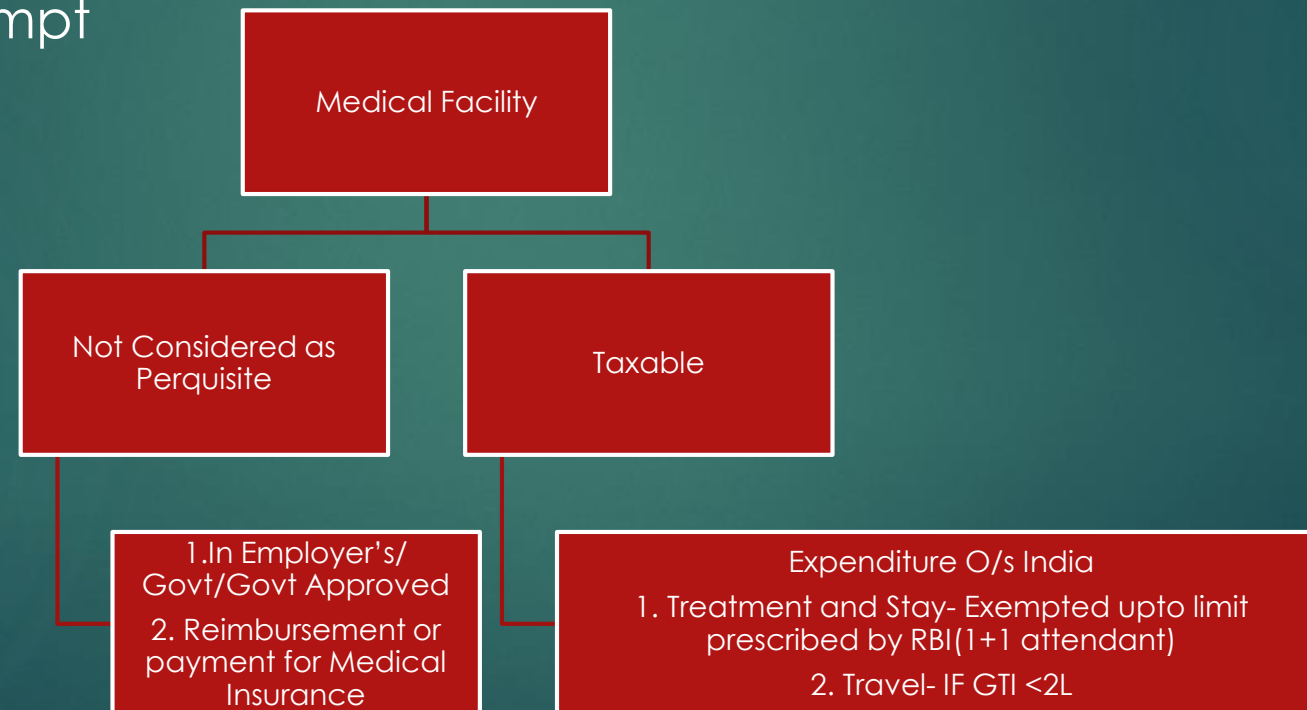
# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Medical Facility

Expenses incurred on Covid treatment of an employee — borne by employers— for FY19 and later- Exempt





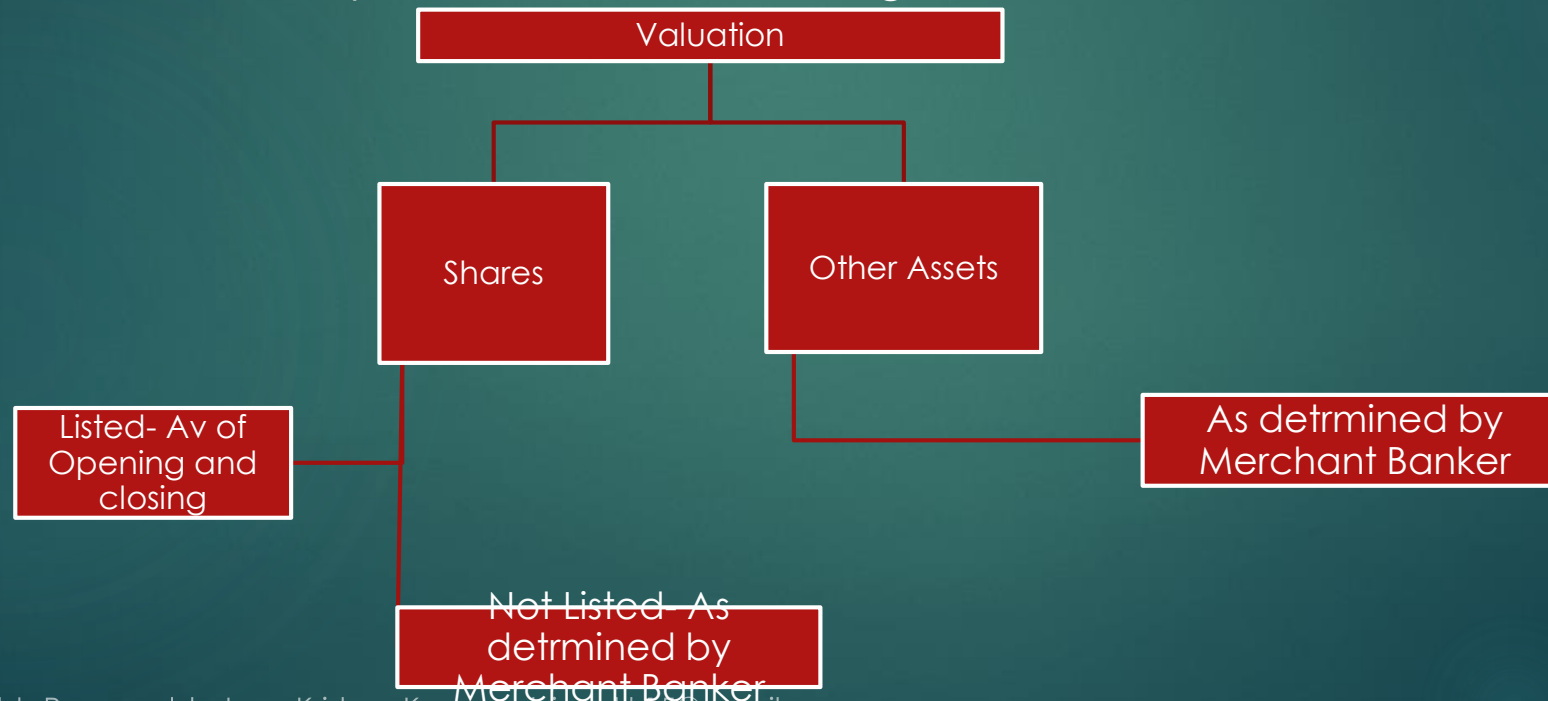
# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Valuation of Shares or Sweat Equity Shares

Value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee. Taxed in the year of allotment, as per values on exercising date



# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Valuation of Shares or Sweat Equity Shares

- ▶ *Mr. M is working with MNO Limited for the last 10 years. He was granted an option on 1.7.2018 by the company to purchase 800 equity shares at a price of ` 250 per share. The period during which the option can be exercised to purchase 800 shares at a pre-determined price of ` 250 per share commencing on 1.7.2018 and ending on 31.3.2020. Mr. M exercised the option on 15.3.2020 to purchase 500 shares. Fair market value on the said date was ` 6490 on the Bombay Stock Exchange and ` 6500 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share.*
- ▶ *The company has allotted him 500 shares on 24th April, 2020. The fair market value on the date of allotment was ` 7100 per share on NSE and ` 7110 on the BSE that has recorded the higher volume of trading in that share. The option was granted for making available rights in the nature of intellectual property rights.*
- ▶ *Determine the taxability of perquisite. Does it make any difference if the option was granted for providing technical know-how?*

# Income from Salary

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## SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

### Valuation of Shares or Sweat Equity Shares

- ▶ The perquisite of sweat equity shares shall be taxable in the previous year 2020-21 (assessment year 2021-22), being the previous year of allotment of such shares. The value of sweat equity shares shall be the fair market value of such shares on the date on which the option is exercised by the assessee, as reduced by any amount actually paid by, or recovered from, the assessee in respect of such shares.
- ▶ As per Rule 3(8) of the Income-tax Rules, 1962, the fair market value of a share on the date of exercising the option shall be the price of the share on the recognized stock exchange which records the highest volume of trading in such shares, in case the shares are listed on more than one recognised stock exchange.
- ▶ Hence, the value of taxable perquisite for sweat equity shares

=	FMV on the date of exercising the option on the NSE (since it recorded higher volume than BSE)	(-) Amount recovered from the employee
=	$(500 \times ₹ 6500) - (500 \times ₹ 250)$	
=	$₹ 32,50,000 - ₹ 1,25,000 = ₹ 31,25,000$	

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ **Loan By Employer to Employee (Member of Household of Employee) - Interest Free or Concessional Loan**
- ▶ **Taxable Amount**
- ▶ • **Loan Amount (MOMB) x (SBI Interest Rate (On First Day of PY) – Actual Interest Rate)**
- ▶ **“(MOMB) Maximum outstanding monthly balance”** means the aggregate outstanding balance for each loan as on the last day of each month.
- ▶ **Not Taxable**
- ▶ • *Loan Amount is up to Rs. 20,000/-*
- ▶ • *Loan is Taken for Specified Disease*

# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

## Tax free perquisites in all cases

- ▶ The following perquisites are exempt from tax in the hands of all employees

Telephone	Recreational facilities provided to all and not specific employees
Transport Facility for office to Home –free of cost or concessional	Amount spent on training of employees
Privilege passes and privilege ticket – granted by Railway tickets	Sum payable by employer to a RPF or an approved superannuation fund
Refreshment	Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India;
Employer's contribution to staff group insurance scheme;	Leave travel concession
Annual premium by employer on personal accident policy	Subsidized lunch- Upto Rs.50 per meal



# Income from Salary

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SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY (SECTION 17)

- ▶ **Perquisites taxable only in the hands of specified employees [Section 17(2)(iii)]**
- ▶ The value of any benefit or amenity granted or provided free of cost or at concessional rate which have not been included in tax free or taxable category above will be taxable in the hands of specified employees.
- ▶ Followings are the example of such services:
- ▶ Provision of sweeper, gardener, watchman or personal attendant
- ▶ Facility of use of gas, electricity or water supplied by employer
- ▶ Free or concessional tickets
- ▶ Use of motor car
- ▶ Free or concessional educational facilities

# Income from Salary

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## **DEDUCTIONS FROM SALARY(Section 16)**

- ▶ Standard Deduction – 50000 or actual salary whichever is lower
- ▶ Entertainment Allowance- Fully taxable , deduction allowed only to Government employees
- ▶ Professional Tax- Allowed in the year of Payment by the employee. Maximum upto 2500 p.a. per person.
- ▶ If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 16.

# Income from Salary

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- ▶ **RELIEF UNDER SECTION 89**
- ▶ **On account of arrears of salary or advance salary:** Where any portion of an assessee's salary is paid in arrears or in advance), his income is assessed at a rate higher than that at which it would otherwise have been assessed, the Assessing Officer shall, on an application made to him in this behalf, grant such relief as prescribed. The procedure for computing the relief is given in Rule 21A.
- ▶ **On account of family pension:** “**Family pension**” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death”. Relief on account of advance or arrear of family pension may be allowed.
- ▶ **No relief at the time of Voluntary retirement or termination of service:** if exemption under section 10(10C) in respect of such compensation received on voluntary retirement or termination of his service or voluntary separation has been claimed by the assessee in respect of the same assessment year or any other assessment year , no other relief will be allowed



# New Regime of Income Tax

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New slab rates	Rate
Income from Rs 2.5 lakh to Rs 5 lakh	5%
Income from Rs 5 lakh to Rs 7.5 lakh	10%
Income from Rs 7.5 lakh to Rs 10 lakh	15%
Income from Rs 10 lakh to Rs 12.5 lakh	20%
Income from Rs 12.5 lakh to Rs 15 lakh	25%
Income above Rs 15 lakh	30%

## Deductions Available

- ▶ Transport allowances in case of a specially-abled person
- ▶ Conveyance allowance
- ▶ compensation to meet the cost of travel on tour or transfer.
- ▶ Daily allowance received to meet the ordinary regular charges or expenditure you incur on account of absence from his regular place of duty.

## Deductions Not Available

- ▶ The standard deduction
- ▶ (LTA)
- ▶ (HRA)
- ▶ Children education allowance
- ▶ Other special allowances [Section 10(14)]
- ▶ Interest on housing loan on the self-occupied property or vacant property (Section 24)
- ▶ Chapter VI-A deduction (Except Section 80CCD(2) and 80JJAA)
- ▶ Without exemption or deduction for any other perquisites or allowances
- ▶ Deduction from family pension income

# New Regime of Income Tax

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Income (Rs)		Old regime (Rs)	New regime (Rs)	Tax Difference (Rs)
Salary	1,250,000	12,50,000	12,50,000	
Less: Standard deduction	50,000	50,000	–	
Less: Professional tax	2,400	2400	–	
<b>Gross total income</b>	<b>1,197,600</b>	11,97,600	12,50,000	
Less: Deduction u/s 80C	150,000	1,50,000	–	
<b>Total income</b>	<b>1,047,600</b>	<b>1,047,600</b>		
Income tax		126,780	125,000	
Add: Education cess @ 4%		5,071	5,000	
<b>Total tax</b>		<b>131,851</b>	<b>130,000</b>	<b>1,851</b>

Income (Rs)		Old regime (Rs)	New regime (Rs)	Tax Difference (Rs)
Salary	1,000,000	1,000,000	1,000,000	
Less: Standard deduction	50,000	50,000	Nil	
Less: Professional tax	2,400	2,400	Nil	
<b>Gross total income</b>	<b>947,600</b>	<b>947,600</b>	1,000,000	
Less: Deduction u/s 80C	150,000	150,000	Nil	
<b>Total income</b>	<b>797,600</b>	<b>797,600</b>	1,000,000	
Income tax		72,020	75,000	
Add: Education cess @ 4%		2,881	3,000	
<b>Total tax</b>		<b>74,901</b>	<b>78,000</b>	<b>-3,099</b>

# Income from House Property

43

## Chargeability Section – Section 22

- ▶ The process of computation of income under the head “Income from house property” starts with the determination of annual value of the property.
- ▶ The concept of annual value and the method of determination is laid down in section 23.
- ▶ The **annual value** of any property comprising of **buildings or lands appurtenant thereto** of which the assessee is the **owner** is chargeable to tax under the head “Income from house property”.
- ▶ **Exceptions:** Annual value of the following properties are chargeable under the head “Profits and gains of business or profession” -
  - ▶ Portions of property occupied by the assessee for the purpose of any business or profession carried on by him.
  - ▶ Properties of an assessee engaged in the business of letting out of properties.

# Income from House Property

44

- ▶ Chargeability Section – Section 22
- ▶ **5.2 CONDITIONS FOR CHARGEABILITY**
- ▶ **Property should consist of any building or land appurtenant thereto.**
  - ▶ Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.
  - ▶ Land appurtenant means land connected with the building like garden, garage etc.
- ▶ **Assessee must be the owner of the property**
  - ▶ Owner is the person who is entitled to receive income from the property in his own right.
  - ▶ The requirement of registration of the sale deed is not warranted.
  - ▶ The person who owns the building need not also be the owner of the land upon which it stands
  - ▶ The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.

# Income from House Property

45

- ▶ Chargeability Section – Section 22
- ▶ **5.2 CONDITIONS FOR CHARGEABILITY**
- ▶ If the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property.
- ▶ The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax.
- ▶ The income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income and not as income from house property [*Rayala Corporation (P) Ltd. v. Asstt. CIT (SC) (2016) 386 ITR 500*].
- ▶ **Property held as stock-in-trade etc.**
- ▶ Annual value of house property will be charged under the head “Income from house property”, where it is held by the assessee as stock-in-trade of a business also.

# Income from House Property

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- ▶ Chargeability Section – Section 22
- ▶ **5.2 CONDITIONS FOR CHARGEABILITY**
- ▶ However, the annual value of property being held as stock in trade would be treated as **NIL** for a period of years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, if such property is not let-out during such period [Section 23(5)].



# Income from House Property

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- ▶ Chargeability Section – Section 22

- ▶ **CASES WHERE INCOME FROM HOUSE PROPERTY IS EXEMPT FROM TAX**

Sl. No.	Section	Particulars
1	10(1)	Income from any farm house forming part of agricultural income.
2	10(19A)	Annual value of palace in the occupation of an ex-ruler.
3	10(20)	Income from house property of a local authority.
4	10(21)	Income from house property of an approved scientific research association.
5	10(23C)	Property income of universities, educational institutions, etc.
6	10(24)	Property income of any registered trade union.
7	11	Income from house property held for charitable or religious purpose.
8	13A	Property income of any political party.



# Income from House Property

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- ▶ Chargeability Section – Section 22
- ▶ **Composite Rent**
- ▶ The owner of a property may sometimes receive rent in respect of building as well as for different services provided in the building, for e.g. –
  - ▶ other assets like say, furniture, plant and machinery.
    - ▶ Lifts;
    - ▶ Security;
    - ▶ Power backup;

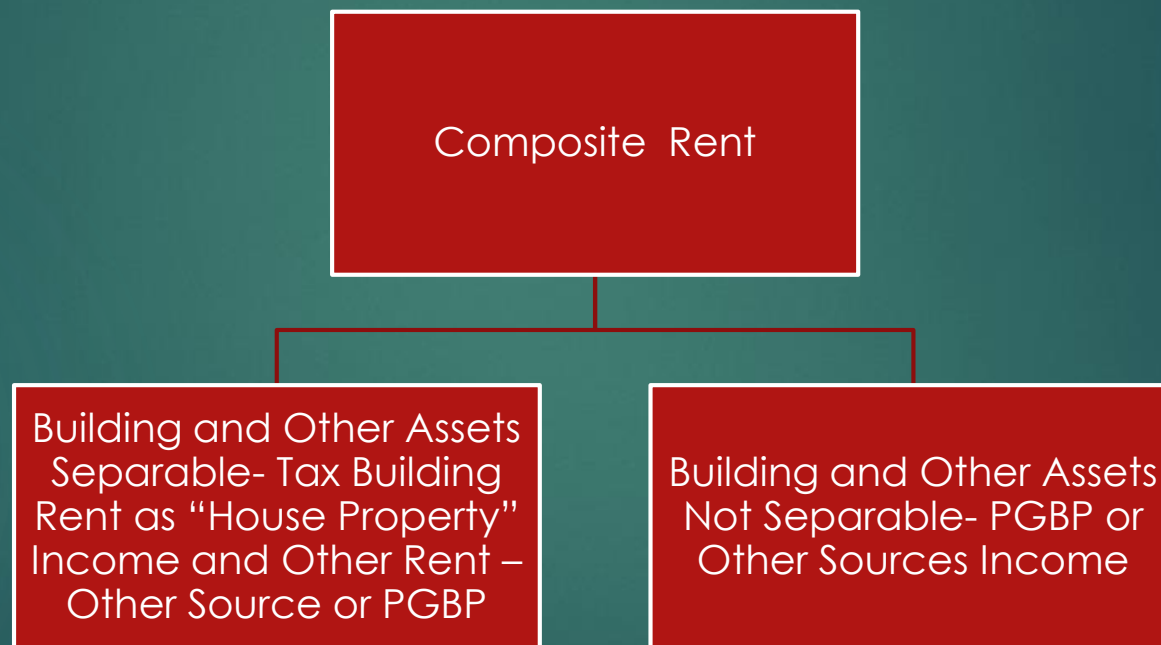
## **Tax treatment of composite rent**

- ▶ The composite rent has to be split up in the following manner -
  - ▶ the sum attributable to use of property is to be assessed under section 22 as income from house property;
  - ▶ the sum attributable to use of services is to be charged to tax under the head “Profits and gains of business or profession” or under the head “Income from other sources”, as the case may be.

# Income from House Property

49

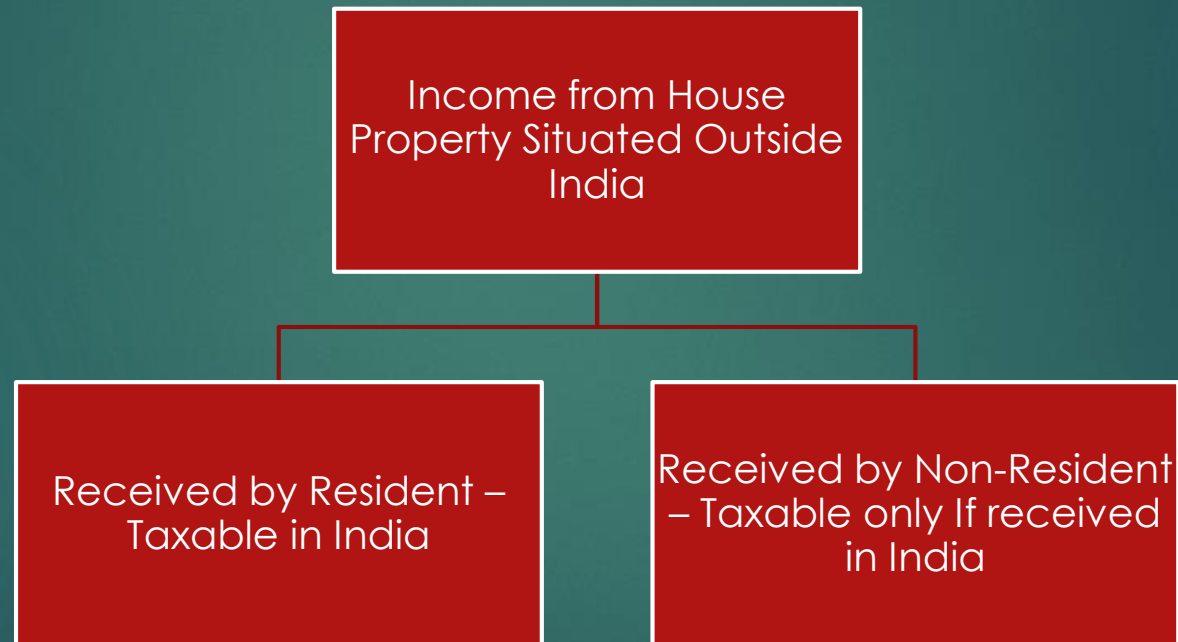
- ▶ Chargeability Section – Section 22
- ▶ **Composite Rent**
- ▶ **Manner of splitting up**



# Income from House Property

50

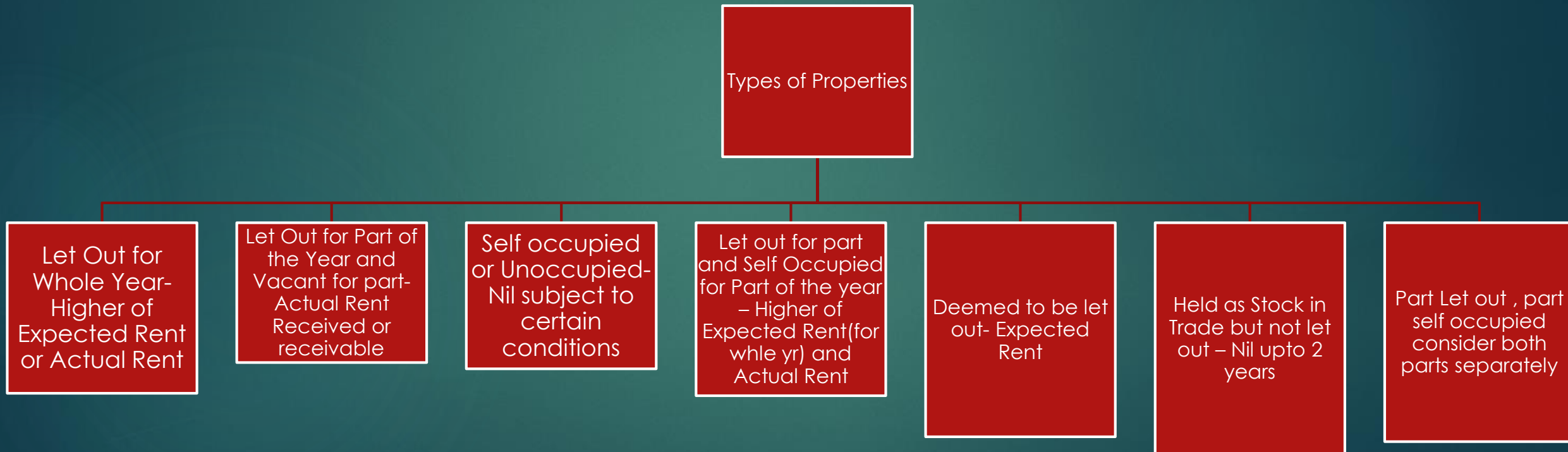
- ▶ Chargeability Section – Section 22
- ▶ INCOME FROM HOUSE PROPERTY SITUATED OUTSIDE INDIA



# Income from House Property

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- ▶ Section 23-Annual Value
- ▶ **Gross Annual Value- Municipal Taxes= Net Annual Value**



# Income from House Property

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## ► Section 23-Annual Value

- ◆ The Expected Rent (ER) is the higher of fair rent (FR) and municipal value (MV), but restricted to standard rent (SR).

For example, let us say the higher of FR and MV is X. Then  $ER = SR$ , if  $X > SR$ . However, if  $X < SR$ ,  $ER = X$ .

Expected Rent (ER) as per section 23(1)(a) cannot exceed standard rent (SR) but it can be lower than standard rent, in a case where standard rent is more than the higher of MV and FR.

- ◆ Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.

Fair rent means rent which similar property in the same locality would fetch. The standard rent (SR) is fixed by the Rent Control Act.

# Income from House Property

53

- ▶ Section 23-Annual Value
- ▶ **Treatment of unrealised rent [Explanation to section 23(1)]**
- ▶ The Actual rent received/receivable should not include any amount of rent which is not capable of being realised.
- ▶ However the conditions prescribed in Rule 4 should be satisfied. They are –
  - ▶ the tenancy is *bona fide*;
  - ▶ the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
  - ▶ the defaulting tenant is not in occupation of any other property of the assessee;
  - ▶ the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

# Income from House Property

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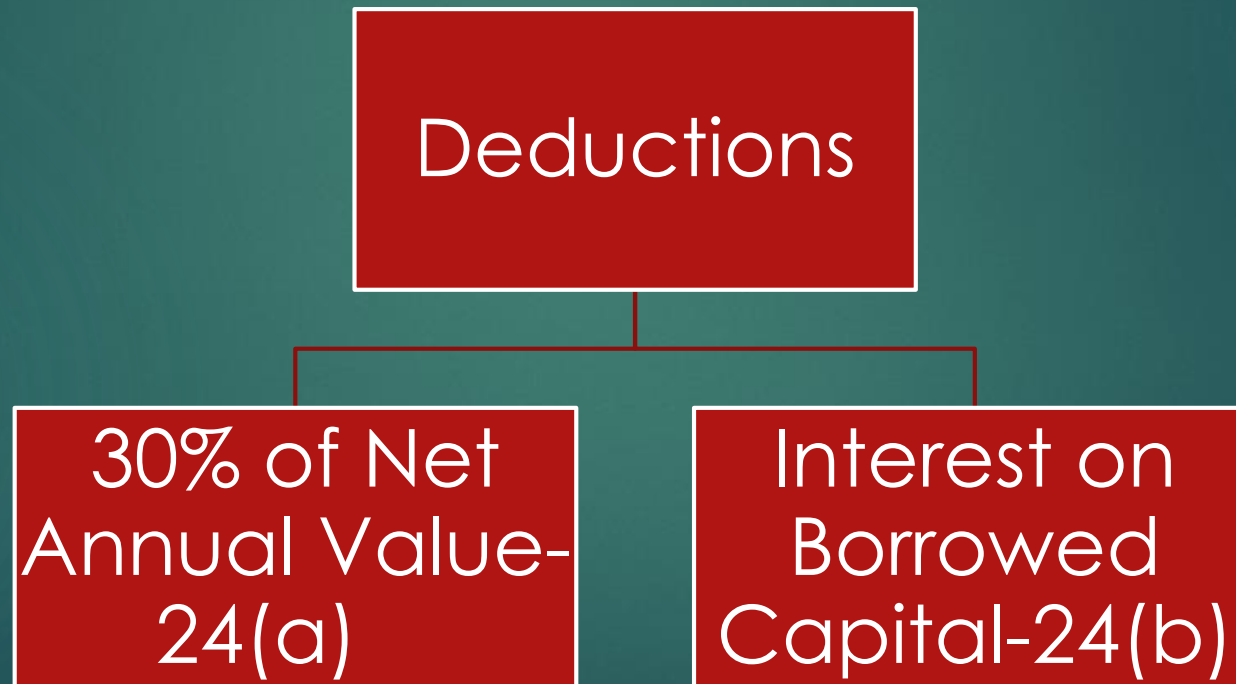
- ▶ Section 23-Annual Value
- ▶ **Property taxes (Municipal taxes)**
  - ▶ Property taxes are allowable as deduction from the GAV subject to the following two conditions:
    - ▶ It should be borne by the assessee (owner); and
    - ▶ It should be actually paid during the previous year.
  - ▶ However, if in any subsequent year, the arrears are paid, then, the amount so paid is allowed as deduction in computation of income from house property for that year.
  - ▶ In case of property situated outside India, taxes levied by local authority of the country in which the property is situated is deductible [*CIT v. R. Venugopala Reddiar (1965) 58 ITR 439 (Mad)*].
  - ▶ In respect of self-occupied/unoccupied house property/properties for which “Nil” Annual Value is claimed, deduction of municipal taxes paid is not allowable.



# Income from House Property

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## DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]



# Income from House Property

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## DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

- ▶ **30% of NAV is allowed as deduction under section 24(a)**
  - ▶ This is a flat deduction and is allowed irrespective of the actual expenditure incurred.
  - ▶ The assessee will not be entitled to deduction of 30%, in the following cases, as the annual value itself is Nil.
    - ▶ self-occupied property; or
    - ▶ property held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year upto 2 years from the end of the FY in which certificate of completion of construction

# Income from House Property

57

## DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

- ▶ **Interest on borrowed capital is allowed as deduction under section 24(b)**
- ▶ Interest on loans for acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.
- ▶ **Interest** payable on a **fresh loan taken to repay the original loan** raised earlier for the aforesaid purposes is also admissible as a deduction.
- ▶ **Interest for pre-construction period:**
- ▶ Interest payable for the period prior to the previous year in which the property has been acquired or constructed (Pre-construction interest) can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.
- ▶ **Interest for the year in which construction is completed/ property is acquired:**
- ▶ Interest relating to the year of completion of construction/ acquisition of property can be **fully claimed** in that year irrespective of the date of completion/ acquisition. Subject to certain conditions.

# Income from House Property

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## DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

- **Deduction in respect of self-occupied property where annual value is nil- Both Preconstruction period and normal interest**

S.No.	Conditions	Amount of Deduction
(a)	Loan borrowed before 1.4.99: Property is repaired, renewed or reconstructed with capital borrowed	Actual interest payable in aggregate for <b>one or two self- occupied properties</b> , subject to maximum of ` 30,000.
(b)	Loan borrowed on or after 1.4.99: (i) The acquisition or construction is <b>completed within 5 years</b> from the end of the financial year in which the capital was borrowed	Actual interest payable in aggregate for one or two self- occupied properties, subject to maximum of ` 2,00,000, if certificate of completion obtained.
	(ii) Where the property is repaired, renewed or reconstructed with capital borrowed on or after 1.4.99.	Actual interest payable in aggregate for one or two self- occupied properties, subject to a maximum of ` 30,000.
However, the total interest deduction under (a) and (b) cannot exceed ` 2,00,000.		

# Income from House Property

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## DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

- ▶ **Important points:**
- ▶ **The ceiling limit would not apply to let-out/ deemed let-out property:** The ceiling prescribed for self-occupied property does not apply to a let out/deemed let-out property.
- ▶ **Interest allowable on accrual basis:** Deduction under section 24(b) for interest is available on accrual basis, so interest accrued but not paid during the year can also be claimed as deduction.
- ▶ **Unpaid purchase price would be considered as capital borrowed:** Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.
- ▶ Interest on unpaid interest is not deductible.

# Income from House Property

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Particulars- Let out Property			Amount
<b>Computation of GAV</b>			
<b>Step 1</b>	Compute ER		
	ER = Higher of MV and FR, but restricted to SR		
<b>Step 2</b>	Compute Actual rent received/ receivable		
	Actual rent received/ receivable less unrealized rent		
<b>Step 3</b>	Compare ER and Actual rent received/ receivable		
<b>Step 4</b>	GAV is the higher of ER and Actual rent received/ receivable		
<b>Gross Annual Value (GAV)</b>			<b>A</b>
<b>Less:</b>	Municipal taxes (paid by the owner during the previous year)		<b>B</b>
<b>Net Annual Value (NAV) = (A-B)</b>			<b>C</b>
<b>Less:</b>	Deductions u/s 24		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	<b>F</b>
<b>Income from house property (C-F)</b>			<b>G</b>



# Income from House Property

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## INADMISSIBLE DEDUCTIONS [SECTION 25]

- ▶ Interest chargeable under this Act which is payable outside India shall not be deducted if –
- ▶ tax has not been paid or deducted from such interest **and**
- ▶ there is no person in India who may be treated as an agent under section 163.

## ARREARS OF RENT AND UNREALIZED RENT RECEIVED SUBSEQUENTLY [SECTION 25A]

Section 25A
Arrears of Rent / Unrealised Rent
Taxable in the year of receipt/realisation
Deduction@30% of rent received/realised
Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation.



# Income from House Property

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## ► TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

Co-owned property [Section 26]	
Self-occupied property	Let-out property
<ul style="list-style-type: none"><li>• Annual Value- NIL</li><li>• 24(a)- Not Allowed</li><li>• 24(b)- each co-owner shall be entitled to a deduction of ` 30,000/` 2,00,000, as the case may be, However, if the co-owner owns another self-occupied / unoccupied property, the aggregate interest from the co-owned property and the other self-occupied property cannot exceed ` 30,000/ ` 2,00,000, as the case may be.</li></ul>	<p>The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.</p>

# Income from House Property

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- ▶ **DEEMED OWNERSHIP [SECTION 27]**
- ▶ **Transfer to a spouse [Section 27(i)]** – without adequate consideration, the transferor is deemed to be the owner of the transferred property.
- ▶ **Exception** – *In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property.*
- ▶ **Transfer to a minor child [Section 27(i)] – Without** adequate consideration, the transferor would be deemed to be owner of the house property transferred.
- ▶ **Exception** – *In case of transfer to a minor married daughter, the transferor is not deemed to be the owner.*
- ▶ **Holder of an impartible estate [Section 27(ii)]** – The impartible estate is a property which is not legally divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.
- ▶ All the properties comprised in an impartible estate by custom is to be assessed in the status of a HUF. However, section 27(ii) will continue to be applicable in relation to impartible estates by grant or covenant.
- ▶ **Member of a co-operative society etc. [Section 27(iii)]** – A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/ company/ association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

# Income from House Property

64

- ▶ **DEEMED OWNERSHIP [SECTION 27]**
- ▶ **on having right in a property for a period not less than 12 years [Section 27(iii b)]**
- ▶ – A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof.
- ▶ **Exception** – *In case the person acquiring any rights by way of lease from month to month or for a period not exceeding one year, such person will not be deemed to be the owner.*

# Thank You

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